

Unpacking Lebanon's Trade Amid the Crisis

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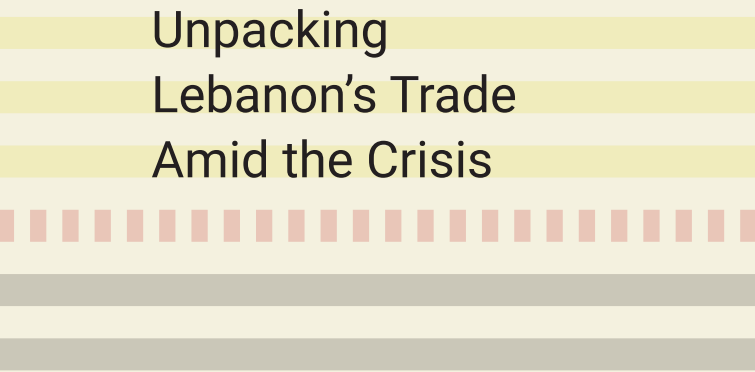


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Lebanon and Syria



Unpacking Lebanon's Trade Amid the Crisis

The Policy Initiative

In partnership with

Friedrich Naumann Foundation for Freedom
Lebanon and Syria

About the authors

Sami Atallah is the founding director of The Policy Initiative. Trained in economics and political science, his research focuses on political economy, political institutions, and economic and local development.

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INTRODUCTION

Trade is a useful barometer of economic vitality, as it is indicative of an economy's competitiveness and societal preferences. Countries that develop their industrial and agricultural base export more products than countries that are less developed, with some going one step further by fostering an environment in which complex products can be produced and exported. As exports rise, countries can import more products that they do not produce domestically. By examining a country's imports and exports, one can begin to understand more about its economy, business environment, consumer habits, and official trade policies.

As a merchant republic, Lebanon has maintained policies supportive of the free exchange of goods and capital since its founding.

Bearing these assumptions in mind, The Policy Initiative gathered and analyzed trade data to determine what it reveals about the current state of the Lebanese economy. As a merchant republic, Lebanon has maintained policies supportive of the free exchange of goods and capital since its founding. While the total value of Lebanese exports in recent years remained relatively low, about \$4 billion, import bills expanded to reach \$20 billion. In effect, Lebanon was living beyond its means and not generating enough dollars from exports to buy imported products. Instead of curbing imports or promoting exports, policymakers chose to attract capital from abroad to finance the difference and maintain an abnormal standard of living. Ensuing trade deficits and the budget deficits were the main causes of the 2019 financial collapse. Over the last four years, Lebanon's GDP contracted to less than half of its 2018 level. The Lebanese pound lost more than 95% of its value, the commercial banking sector is effectively bankrupt, poverty soared, and income and wealth inequalities reached unprecedented levels.

Ensuing trade deficits and the budget deficits were the main causes of the 2019 financial collapse.

This study aims to assess how trade has been affected by the economic and financial crisis. Generally, when a currency collapses, exports increase as products become relatively cheaper to sell abroad and imports decrease as they become more expensive. In most cases, as a trade deficit shrinks, demand for hard currency reduces. Accordingly, TPI chose to closely examine the effect of the financial and economic crisis on the value of both imports and exports between 2018 and 2022. Going beyond the aggregate numbers, we determine the composition of exports, not solely in terms of sectors and sub-sectors, but also how and to what extent products with comparative advantage have changed. We also focus on how complex products – which require a higher level of sophistication to make – evolved during this period. While product diversification is important, our work examines Lebanese export markets as well as the potential to export more products that are in demand worldwide. We also examine Lebanon's import basket and assess how the types of goods in it, including basics and luxury products, have changed over the same period.

By analyzing luxury import trends, export patterns, market destinations, and product complexity, this study provides valuable insights into Lebanon's economic resilience and challenges facing the country. Such an analysis is crucial to understanding the broader socio-economic impacts of the crisis and informing policymaking and economic recovery.

METHODOLOGY AND DATA SOURCES

The methodology employed in this report is rooted in a thorough analysis of trade data, supplemented by current economic indicators and historical trends. The key data sources include:

- **Lebanese Customs Administration: Provides detailed import and export data, offering insights into trade volumes, values, and commodity breakdowns specific to Lebanon.**
- **The Observatory of Economic Complexity (OEC): A platform for visualizing complex economic data, including trade profiles, product complexity, and market destinations.**
- **United Nations Comtrade Database: A repository of official international trade statistics, vital for comparative global trade analysis.**
- **International Trade Center (ITC): Provides trade and market analysis tools and data, aiding in understanding trade competitiveness and market trends.**

These data sources, combined with academic literature, industry reports, and financial market data, form the backbone of the analysis presented in the report. By leveraging these diverse data streams, the report offers a holistic and detailed picture of Lebanon's trade status during its economic crisis.

This report brings together five essential articles that examine changes in exports and imports over the years:

The first article assesses how Lebanon's exports changed at the sectoral and product levels. Lebanon exported 936 products in 2022 worth \$3.4 billion in real terms, marginally less than 948 products in 2018. "Plastics and Rubbers" exports increased by the most significant amount followed by "Vegetable Products". The country added 77 new products to its export basket but stopped exporting 65 products during the same period. Lebanon has a comparative advantage in 203 products valued at \$3 billion, which are mostly in the "Precious Metals", "Metals", "Plastics and Rubber", and "Chemical Product" sectors.

The second article covers Lebanese export destinations. Lebanon exported 948 products to 171 countries in 2021. Compared to 2018, it lost 12 markets and gained eight new ones. The share of Lebanese exports to Europe rose from 22% to 25% between 2018 and 2021, whereas exports to Asia declined from 52% to 46%. Over the same period, Lebanon managed to expand its total trade by \$1.6 billion to 11 countries worldwide, which include Cameroon, Egypt, and Liberia, among others, selling goods such as "Scrap Iron and Copper", "Gold", "Jewelry", "Diamonds", "Grapes", and "Dried Fruits". From 2018 to 2021, Lebanon lost seven markets worth \$300 million, and Lebanon has thus far failed to capitalize on potential exports, comprising 22 products worth around \$948 million, which could be sold to 20 markets including Switzerland, the UAE, Saudi Arabia, Egypt, and the USA.

The third article examines the complexity of Lebanese exports. In 2021, Lebanon exported 88 complex products – those that require sophisticated production processes – worth \$151 million, compared to 90 such products worth \$142 million in 2018. These products are distributed across nine sectors, predominantly in the "Machine", "Metal", and "Chemical Sectors". Lebanon had a comparative advantage in 11 such products, including "Photographic Material", "Blown Glass", "Felt Machinery", and "Electric Furnaces". While their total value is small, they signal potential that has yet to be leveraged. These products are mostly sold in Africa and the Middle East.

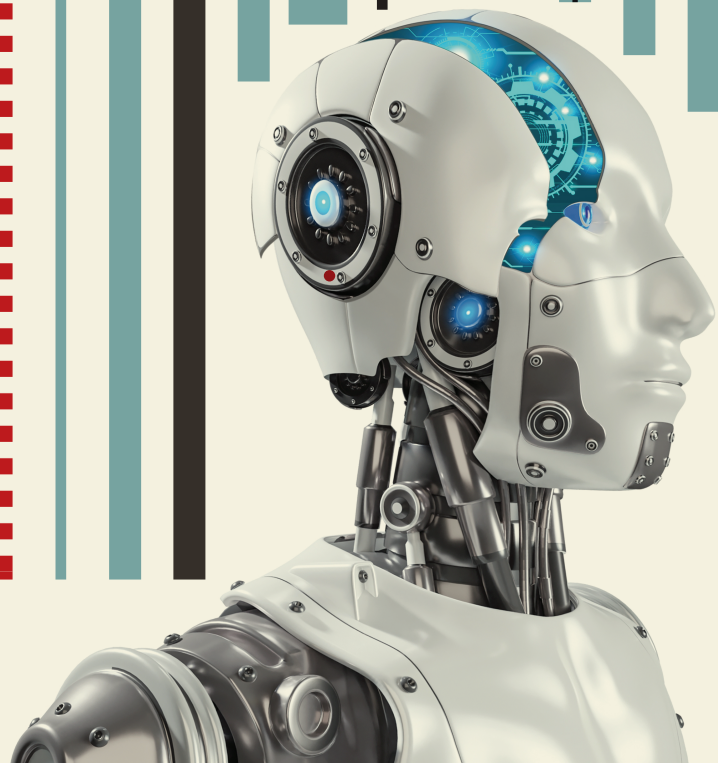
The fourth article analyzes which imported goods have recovered the quickest amid the crisis. Lebanon's import bill recovered from a low of \$12.8 billion in 2020 to \$19.5 billion in 2022. Imports across all categories suffered a significant decline in 2020. Luxury products, of which there are about 200, recovered the quickest, reaching \$3.5 billion in 2022. Such products include large capacity "Spark-Ignition Engines", "Electric vehicles", "Jewelry", "Gold", "Diamonds", as well as "Yachts and Pleasure Boats". Consumer food products, on the other hand, stood at 68% of their pre-crisis level.

The fifth article examines the accuracy of reported data by Lebanon and its partners. Lebanon misreported its export data by an average of 46% between 1997 and 2022, which is astonishingly higher than other countries like France and Angola, which had misreported their data by 9% and 13%, respectively, over the same period. We show that Lebanon has consistently underreported its exports over the last 26 years, while it overreported its imports between 1997 and 2012 and underreported them between 2013 and 2022. Moreover, Lebanon has consistently underreported its exports to Switzerland, the UAE, and Kuwait, where "Precious Stones" accounted for the highest difference. Lebanon underreported data on "Precious Stones" imports from the UAE but overreported its trade with the USA, particularly "Mineral Fuels". While this requires further investigation, the discrepancies could be attributed to a range of factors including trade data classification, tariff evasion, and economic changes.

ARTICLE 3

What Complex Products is Lebanon Exporting?

Sami Atallah and Sami Zoughaib



ARTICLE 3**What Complex Products is Lebanon Exporting?**

Sami Atallah
and
Sami Zoughaib

Considerable attention is paid to the volume and nature of goods Lebanon exports in relation to the country's imports, trade balance, and other macroeconomic indicators. In our previous article, TPI examined the number and types of products that Lebanon has a comparative advantage in selling to global markets, both before the onset of and during Lebanon's interwoven crises. In this article, we assess the complexity of Lebanese exports.

Complex products comprise those requiring sophisticated processes to build them. Their production is often associated with highly skilled and productive labor and capital-intensive processes operating in an environment with strong institutions. Often, these conditions are found in a limited number of countries.¹

Little effort is focused on Lebanese firms' abilities to produce and sell complex products. Studies have shown that complex products are highly correlated with higher GDP per capita and lower levels of income inequality. They tend to pave the way for future growth and create high-paying and skilled jobs. Products like "Machines and Appliances for Specialized Industries", "Instruments and Appliances for Physical or Chemical Analysis", and "Appliances Based on the Use of X-ray or Radiation" are considered highly complex products. This contrasts with "Crude Oil", "Cotton", "Cocoa Beans", or "Sesame Seeds".

Complex Export Potential,
Where Lebanon
Currently Stands

In 2021, Lebanon exported 145 products that are classified as complex (having a product complexity index greater than 1 for a scale that ranges between -2.5 and 2.5) and were valued at \$151 million. By excluding products that do not have an export value exceeding \$100,000, the number of complex products is reduced to 88, but their value remains at \$151 million, meaning 57 complex products were exported in very small amounts. Looking at 2018 data, Lebanon exported 90 complex products (among those that exceed \$100,000) with a value of \$142 million.

Among Lebanon's 88 complex products in 2021, 47 are classified as "Machines", 12 as "Metals", seven as "Chemicals", six as "Stone and Glass", six as "Instruments", four as "Plastics", two as "Textiles", two as "Paper Goods", one as "Weapons", and one as "Miscellaneous". Lebanon had a comparative advantage in 11 out of the 88 products when measured by revealed comparative advantage (above 1). These products, which were valued at \$39 million, are mostly in the "Machines", "Stone and Glass", and "Chemical" sectors (Table 1). While their total value is small, they signal potential that has yet to be explored and leveraged.

Table 1: List of complex products (PCI >1) with high RCA (>1) in 2021

HS6	Name of product	Section	RCA	Value (\$)	Product Complexity Index (PCI)
63705	Developed Exposed Photographic Material	Chemical product	1.15	417,205	2.38
137004	Blown glass	Stone and glass	1.12	240,314	1.8
168514	Electric furnaces	Machines	1.03	1,367,949	1.51
158205	Other hand tools	Metals	1.18	2,555,998	1.48
168439	Papermaking machines	Machines	2.5	3,237,661	1.37
168449	Felt machinery	Machines	1.079	416,642	1.31
168467	Motor working tools	Machines	1.06	2,567,018	1.29
73919	Self-adhesive plastics	Plastics and rubbers	1.73	10,614,720	1.22
168441	Other paper machinery	Machines	4.55	8,685,722	1.16
137003	Cast or rolled glass	Stone and glass	1.42	778,861	1.11
168428	Lifting machinery	Machines	1.098	8,362,649	1.09

Source: The Observatory of Economic Complexity

¹ According to the Observatory of Economic Complexity website, complex products measure "the knowledge intensity of a product by considering the knowledge intensity of its exporters". Instead of measuring the combination of factors that are needed to produce each product, the authors have reduced the complexity of products to a set of (non-fungible) knowledge that are associated with particular countries

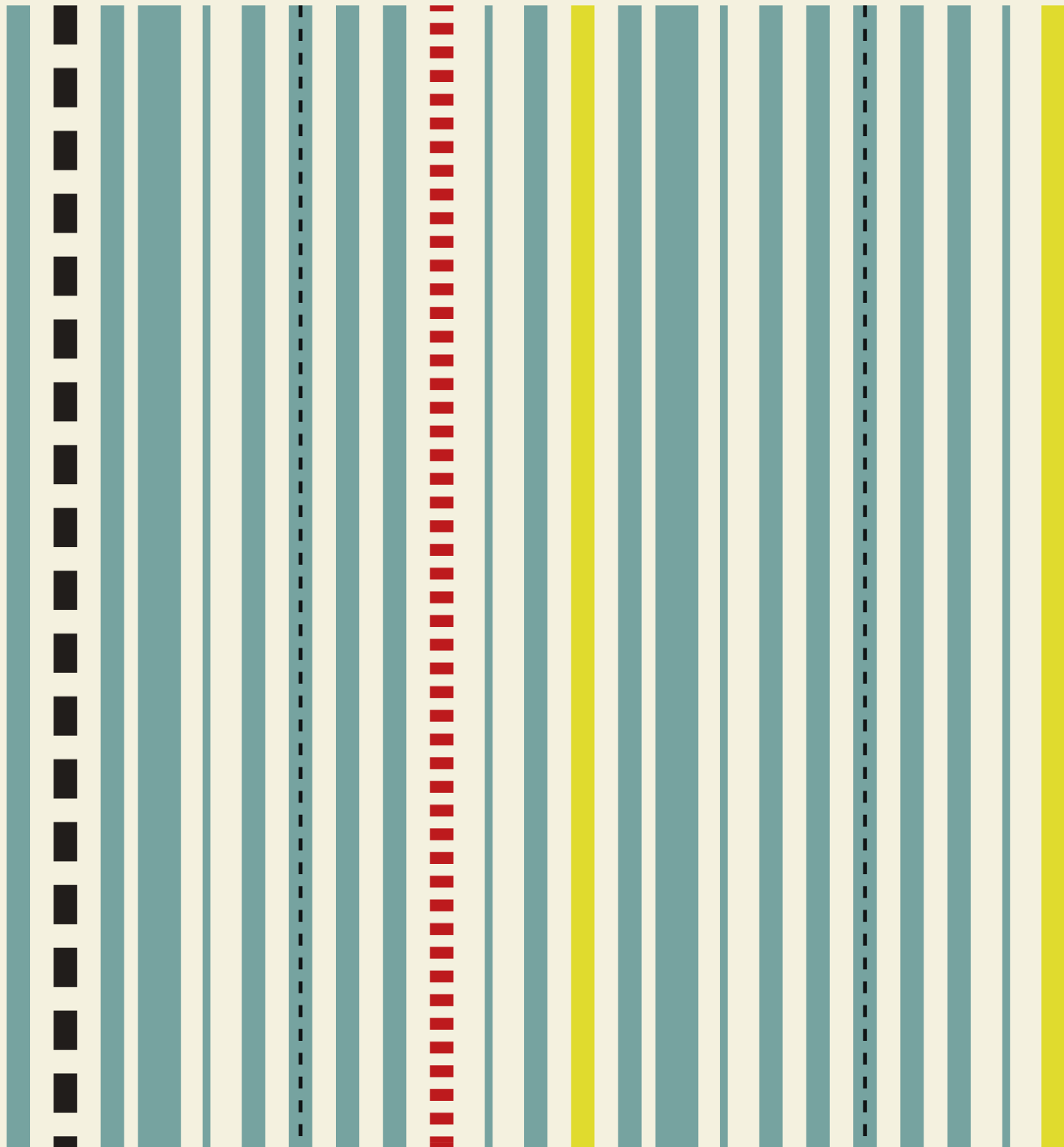
Three out of the 11 products – “Developed Export Photographic Material”, “Blown Glass”, and “Felt Machinery” – were exported in 2021 but not in 2018. The remaining eight were exported both in 2018 and 2021. Out of these eight, one product, “Lifting Machinery”, declined in trade volume from \$10.4 million to \$8.3 million, “Electric Furnaces” and “Cast or Rolled Glass” had the same trade volume. The other five products experienced a big jump in sales. For instance, “Other Hand Tools” increased from \$231,000 in 2018 to \$2.5 million in 2021.

In 2021, Lebanon exported most of its complex products to Africa and the Middle East. “Electric Furnaces” were exported to Saudi Arabia, Canada, and Oman; “Other Hand Tools” sold to Congo, Cote d’Ivoire, and Spain; “Paper Making Machines” exported predominantly to Nigeria; “Motor Working Tools” sold to Ghana, Cote d’Ivoire, and Togo; “Self Adhesive Plastics” exported to Syria, Saudi Arabia and Egypt; “Other Paper Machinery” sold to UAE, Nigeria, and Egypt; and “Lifting Machinery” exported to Algeria, Congo, and Cyprus.

Complex Export Opportunities

Despite exporting complex products, Lebanon’s ability to make headway in expanding its roster of complex products seems limited. This is largely due to the country’s economic structure. The available knowledge and know-how, as well as the right environment and institutions to produce new complex products, is largely absent. Using the diversification frontier developed by the Observatory of Economic Complexity, the products that are “near” the current exported products are of low complexity. Products that have high “relatedness” to complex Lebanese exports, meaning those which Lebanese firms likely have the ability and capacity to produce, are also of low complexity.

While Lebanon has continued to export complex products amid its interwoven crises, the country’s potential to expand its range of complex products is hindered by its economic structure, a limited industrial environment, and a lack of necessary institutions and knowledge. For Lebanon to enter the fray and produce more complex products, it must develop an industrial policy that fosters an environment in which knowledge and institutions can be utilized by industrialists and entrepreneurs to diversify and produce more complex products. This strategic shift is essential for Lebanon to elevate its position in the global market and drive economic growth through more sophisticated exports.



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TPI is a homegrown and independent think tank that aims to critically and empirically assess existing policies and to generate meaningful alternatives. We endeavor to shape a well-researched and evidence-based policy vision that is representative of the interests of the broader public and to empower people in demanding a better alternative.



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The Friedrich Naumann Foundation for Freedom (FNF) is the German Foundation for Liberal Politics. FNF promotes liberal values; above all freedom of the individual in their pursuit of happiness. The Foundation's work aims at contributing to building a state of law, fighting corruption, promoting good governance, and supporting participation in local politics. In Lebanon, our main objective is to support Lebanese start-ups, civil society organizations and liberal political parties while raising awareness about political education, women empowerment and sustainable development.